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**THE PREDICTIVE ABILITY AND CLASSIFICATION SHIFTING OF  
DISCONTINUED OPERATIONS UNDER IFRS – 5**

A Dissertation  
submitted to the Graduate Research School of  
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“Life isn’t about finding yourself. Life is about creating yourself.”

- *George Bernard Shaw*

I dedicate this dissertation to my beloved mother, who has quietly stood by and made sacrifices while showering me with unconditional love and support through all the years I pursued an academic career. It is also dedicated to my honoured father, who is no longer with me. There is no doubt he would have been so proud of his daughter's latest achievement. To them I shall forever be indebted.

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## ABSTRACT

Considerable attention has been directed towards the impact of International Financial Reporting Standards (IFRS) by the business community and regulators. IFRS-5 *Non-current Assets Held for Sale and Discontinued Operations* requires the separate reporting of discontinued operations in the statement of comprehensive income. This is based on the (untested) assertion that cash flows from discontinued operations are different from continuing flows. Thus, there is a need to provide empirical evidence to support the assumption.

This thesis examines the usefulness of separate reporting of discontinued operations in two important attributes: predictive ability and classification shifting. Motivated by the concerns that discontinued operations are not useful to predict future profitability and are used to manipulate core earnings, this thesis investigates these two aspects for Australian listed companies that have adopted IFRS since 2005.

Existing literature documents evidence that discontinued operations should be ignored to predict future profitability (Fairfield, Sweeney, & Yohn, 1996) and managers engage in classification shifting using discontinued operations (Barua, Lin, & Sbaraglia, 2010) under the United States' Generally Accepted Accounting Practices (US GAAP). As discontinued operations are defined and measured differently under US GAAP and IFRS, this thesis investigates the usefulness of separate reporting of discontinued operations under IFRS by examining predictive ability and classification shifting of discontinued operations.

The findings show discontinued operations, particularly when splitting it into gains and losses from discontinued operations, are useful to predict a company's future profitability. Furthermore, results show losses from discontinued operations are opportunistically used to manipulate core earnings, to avoid reporting losses and earnings decreases under IFRS, when firms report discontinued operations frequently, and the amount of losses is high.

These results could be used for IASB in deciding whether to report discontinued operations separately in statements of comprehensive income.

## TABLE OF CONTENTS

ACKNOWLEDGEMENTS .....	ii
ABSTRACT.....	iii
TABLE OF CONTENTS.....	iv
LIST OF TABLES .....	vii
LIST OF FIGURES .....	ix
LIST OF APPENDICES .....	x
LIST OF ACRONYMS .....	xi
1. INTRODUCTION .....	1
1.1 Background of This Thesis .....	1
1.2 Predictive Ability of Discontinued Operations .....	2
1.2.1 Motivation and Hypothesis .....	2
1.2.2 Main Findings .....	3
1.3 Classification Shifting of Discontinued Operations.....	3
1.3.1 Motivation and Hypotheses .....	3
1.3.2 Main Findings .....	4
1.4 Contributions of This Thesis .....	5
1.5 Framework of This Thesis .....	6
2. BACKGROUND INFORMATION .....	7
2.1 IFRS-5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .....	7
2.2 Definition and Requirements for Reporting Discontinued Operations .....	8
2.3 FASB/IASB Project on Discontinued Operations .....	9
2.4 Non-recurring Items .....	11
2.5 Chapter Summary .....	12
3. LITERATURE REVIEW ON DISCONTINUED OPERATIONS .....	13
4. PREDICTIVE ABILITY .....	15
4.1 Literature Review and Hypothesis Development.....	15
4.1.1 Theoretical Framework of Prediction .....	15

4.1.2 Net Income .....	16
4.1.3 Core Earnings .....	16
4.1.4 Disaggregation .....	17
4.1.5 Firm Size .....	17
4.1.6 Non-recurring Items and Hypotheses .....	18
4.2 Research Design and Sample .....	18
4.2.1 Empirical Models .....	18
4.2.2 Estimation of APEs and Rank.....	20
4.2.3 Forecast Accuracy Test.....	21
4.2.4 Long Horizon Test .....	22
4.2.5 Sample Selection .....	24
4.2.6 Sample Scaling and Criteria .....	28
4.3 Results .....	29
4.3.1 Descriptive Statistics .....	29
4.3.2 Regression Results .....	31
4.3.3 Estimation of APEs and Rank.....	34
4.3.4 Forecast Accuracy Test Results .....	34
4.3.5 Long Horizon Test Results.....	37
4.4 Chapter Summary .....	40
5. CLASSIFICATION SHIFTING OF DISCONTINUED OPERATIONS .....	42
5.1 Literature Review and Hypothesis Development.....	42
5.1.1 Classification Shifting is a Tool of Earnings Management.....	42
5.1.2 Classification Shifting and Hypothesis Development .....	44
5.1.3 Classification Shifting to Meet or Beat Earnings Benchmarks .....	46
5.2 Research Design .....	48
5.2.1 Empirical Models for Classification Shifting .....	48
5.2.2 Material Discontinued Operations .....	50
5.2.3 Serial vs Non-Serial Discontinued Operations .....	50
5.2.4 Benchmark Testing .....	50



5.2.5 Sample Scaling and Criteria .....	51
5.3 Results .....	52
5.3.1 Descriptive Statistics for Classification Shifting .....	52
5.3.2 Expected Core Earnings and Expected Change in Core Earnings .....	54
5.3.3 Classification Shifting Results .....	61
5.3.4 Material Discontinued Operations .....	64
5.3.5 Serial vs Non-Serial Discontinued Operations .....	68
5.3.6 Serial and Material Discontinued Operations .....	70
5.4 Chapter Summary .....	73
6. CONCLUSION .....	74
6.1 Summary of the Thesis .....	74
6.2 Policy Implications for Standard Setters .....	75
6.3 Future Research Opportunities .....	76
REFERENCES .....	77
APPENDICES .....	81
VITA .....	89

## LIST OF TABLES

Table 1 Summary of Differences on Discontinued Operations between US GAAP and IFRS .....	10
Table 2 Calculation of Absolute Percentage Errors (APE) and Rank .....	21
Table 3 Data Years Included in One-, Two-, Three-, Four- and Five-year Windows .....	23
Table 4 Sample Composition by Year (2005-2016) .....	25
Table 5 Number of Firms Reporting Discontinued Operations by Year and by Industry .....	26
Table 6 Total Value of Discontinued Operations by Year and by Industry (\$'000.000) .....	27
Table 7 Sample Selection Criteria for Predictive Ability of Discontinued Operations .....	28
Table 8 Descriptive Statistics for Predictive Ability .....	30
Table 9 Pearson (left) Spearman (right) Correlation Matrix .....	31
Table 10 Regression of Net Income (NI) on Discontinued Operations (DCO) .....	33
Table 11 Mean Absolute Percentage Error and Rank.....	34
Table 12 Descriptive Statistics on Forecast Errors and Absolute Forecast Errors.....	35
Table 13 Forecast Improvement from Disaggregating Net Income .....	36
Table 14 Regression Results in Long Horizon .....	39
Table 15 Illustration of Classification Shifting.....	44
Table 16 Descriptive Statistics for Classification Shifting .....	52
Table 17 Spearman (left) and Pearson (right) Correlations, Full Sample N=12516.....	55
Table 18 Spearman (left) and Pearson (right) Correlations, DCO Sample N=1625.....	56
Table 19 Regression Results of Expected Core Earnings, Dependent Variable $CE_t$ , Full Sample .....	57
Table 20 Regression Results of Expected Change in Core Earnings, Dependant Variable $\Delta CE_{t+1,t}$ .....	58
Table 21 Regression Results of Expected Core Earnings, Dependent Variable $CE_t$ , DCO Sample .....	59
Table 22 Regression Results of Expected Change in Core Earnings, Dependant Variable $\Delta CE_{t+1,t}$ .....	60
Table 23 Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations, Full Sample .....	62
Table 24 Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations, DCO Sample .....	63

Table 25 Benchmarks, Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations, N=1625 .....	66
Table 26 Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations, Material DCO Sample .....	67
Table 27 Serial vs Non-Serial Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations .....	69
Table 28 Serial & Material Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations .....	71
Table 29 Serial and Material Benchmark Regressions of Unexpected Core Earnings and Unexpected Change in Core Earnings on Discontinued Operations .....	72

## **LIST OF FIGURES**

Figure 1 Annual Trend of Percentage of Firms Reporting Discontinued Operations (2006-2016).....	28
Figure 2 Frequency of Firms Reporting Discontinued Operations (2006-2016) .....	68

## **LIST OF APPENDICES**

Appendix 1 Display of Discontinued Operations as Required by IFRS-5.....	81
Appendix 2 Option 1 Display of Discontinued Operations Reporting in the Notes .....	82
Appendix 3 Option 2 Display of Discontinued Operations Reporting in the Notes (columnar format).....	83
Appendix 4 Review of Empirical Studies on Discontinued Operations .....	84
Appendix 5 Review of Empirical Studies on Predictive Ability in Non-recurring Items.....	85
Appendix 6 Review Studies on Earnings Management.....	86
Appendix 7 Review of Empirical Studies on Classification Shifting .....	87

## **LIST OF ACRONYMS**

APE	Absolute Percentage Errors
AFE	Absolute Forecasted Errors
ASC	Accounting Standards Codification
ASU	Accounting Standard Update
CE	Core Earnings
DCO	Discontinued Operations
EPS	Earnings Per Share
FASB	Financial Accounting Standard Board
GAAP	Generally Accepted Accounting Practices
GCU	Cash Generating Unit
IAS	International Accounting Standards
IASB	International Accounting Standard Boards
IASC	International Accounting Standard Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
MAPE	Mean Absolute Percentage Error
MoU	Memorandum of Understanding
SEC	Security Exchange Commission
SFAS	Statement of Financial Accounting Standards
US	United States